DEPARTMENT OF JUSTICE

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 2001

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6398
Fax: (306) 787-6383
Internet e-mail: info@auditor.sk.ca

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Correctional Facilities Industries Revolving Fund as at March 31, 2001 and the statements of operations and accumulated operating deficit and changes in accumulated net expenditure for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2001 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
June 26, 2001

Fred Wendel, CMA, CA
Acting Provincial Auditor

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
BALANCE SHEET
AS AT MARCH 31

	2001	2000
ASSETS		
Current assets:		
Accounts receivable	$ 431,503	$ 175,254
Inventory	182,983	192,329
	614,486	367,583
Capital assets (Note 5)	84,054	102,027
	$ 698,540	$ 469,610
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 152,235	$ 41,053
Non-Current liabilities:		
Accumulated net expenditure (Statement 3)	637,041	502,273
Fund equity:		
Accumulated operating deficit (Statement 2)	(90,736)	(73,716)
	$ 698,540	$ 469,610

(See accompanying notes to the financial statements)

Statement 2

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF OPERATIONS
AND ACCUMULATED OPERATING DEFICIT
FOR THE YEAR ENDED MARCH 31

	2001		2000
	Budget (Note 10)	Actual	Actual
Sales	$ 1,120,000	$ 1,020,908	$ 742,702
Cost of goods sold (Note 6)	950,928	807,170	671,168
Gross profit	169,072	213,738	71,534
Operating expenses:			
Salaries	239,400	237,646	236,001
Office supplies	3,650	2,419	3,069
Repairs and maintenance	7,400	547	3,389
Delivery	2,000	1,063	1,905
Travel	14,000	9,987	9,917
Amortization	4,415	3,002	2,830
Bad debts/allowance	3,230	49,601	23,332
Inmate assessment	22,750	18,976	20,045
Advertising	—	834	—
Returns	—	802	1,192
Miscellaneous	6,600	5,292	9,531
Inventory Write-down	—	42,589	—
	303,445	372,758	311,211
Loss from operations	(134,373)	(159,020)	(239,677)
Other income	—	—	310
Gain on sale of assets	—	—	5,087
Subsidy and recovery from General Revenue Fund (Note 4)	142,000	142,000	379,000
Net (loss) income	$ 7,627	(17,020)	144,720
Accumulated operating deficit, beginning of year		(73,716)	(218,436)
Accumulated operating deficit, end of year - to Statement 1		$ (90,736)	$ (73,716)

(See accompanying notes to the financial statements)

Statement 3

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF CHANGES IN
ACCUMULATED NET EXPENDITURE
FOR THE YEAR ENDED MARCH 31

	2001	2000
Financing (provided by) required for operating activities:		
Net loss (income)	$ 17,020	$ (144,720)
Items not affecting working capital		
- amortization	(32,492)	(37,929)
- gain on disposal of capital assets	—	5,087
Working capital changes related to operations		
Increase (decrease) in accounts receivable	256,249	(153,668)
(Decrease) in inventories	(9,346)	(18,183)
(Increase) decrease in current liabilities	(111,182)	89,874
	120,249	(259,539)
Financing (provided by) required for investing activities:		
Purchase of capital assets	14,519	6,155
Proceeds from sale of capital assets	—	(10,627)
	14,519	(4,472)
Net expenditure/(recovery):	134,768	(264,011)
Accumulated net expenditure, beginning of year	502,273	766,284
Accumulated net expenditure, end of year - to Statement 1	$ 637,041	$ 502,273

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2001

1. Authority and Definition of Reporting Entity

The Revolving Fund operates under the authority of Section 53 of *The Correctional Services Act*. The purpose of the Revolving Fund is to rehabilitate inmates by operating work programs intended to provide practical and marketable work skills for inmates and to reduce the costs of inmate programming.

2. Accounting Policies

The financial statements are prepared using Canadian generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure. The following accounting policies are considered significant:

a) Basis of Accounting

These financial statements are prepared using the accrual basis of accounting.

b) Revenue Recognition

The financial statements recognize revenue from long-term contracts proportionately with the degree of completion of goods under a contract.

c) Net Expenditure/(Recovery)

The net cash expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from the acquisitions, working capital changes and net cash flows from operations.

d) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) the net expenditure/(recovery) for each fiscal year, and

ii) the book value of assets acquired at no charge from other government agencies.

e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by using the first in, first out method.

f) Capital Assets

Capital assets are recorded at cost. The cost and related accumulated amortization of items retired or disposed of are removed from the records and any gains or losses are included in the statement of operations.

Amortization is calculated on the straight-line basis at an annual rate of 10% for equipment and leasehold improvements and on a diminishing balance basis at an annual rate of 30% for tools and other assets.

Computer equipment is amortized on a straight-line basis over 3 years.

3. Authorized Financing

Subsection 53 (10) of *The Correctional Services Act* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $900,000 was established by Order in Council 816/89.

4. Disposition of Accumulated Operating Surplus or Deficit

In accordance with subsection 53 (4) of *The Correctional Services Act*, the Minister shall pay to the General Revenue Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Revolving Fund shall be $100,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus/deficit exceeds the maximum, then any surplus/deficit in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to/from the General Revenue Fund. During the year the Revolving fund received $ 0 (2000 - $ 237,000) as a deficit recovery from the General Revenue Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the General Revenue Fund (Department

of Justice's appropriation) in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur. During the year, the Revolving Fund received $ 142,000 (2000 - $142,000) as a subsidy from the General Revenue Fund.

5. Capital Assets

	2001			2000		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 266,419	$ 199,880	$ 66,539	$ 256,479	$ 181,666	$ 74,813
Tools	58,814	50,582	8,232	55,055	46,792	8,263
Leasehold Improvements	70,269	63,985	6,284	70,268	57,236	13,032
Computer	12,416	11,132	1,284			
Other	14,190	12,475	1,715	25,779	19,860	5,919
	$ 422,108	$ 338,054	$ 84,054	$ 407,581	$ 305,554	$ 102,027

6. Cost of Goods Sold

Cost of goods sold consists of the following:

	2001	2000
Materials	$ 384,112	$ 297,890
Supplies	29,734	18,648
Small tools	3,728	2,656
Inmate labour	39,807	34,726
Inmate incentive	73,041	70,012
Amortization	29,490	35,099
Staff salaries	208,001	194,478
Shop expense	39,257	17,659
	$ 807,170	$ 671,168

7. Amount Reported in the Public Accounts

The net recovery of the Revolving Fund reported in Public Accounts is the net income of the Revolving Fund adjusted for differences in accounting policies and other adjustments between the Revolving Fund and the General Revenue Fund:

	2001	2000
Net (loss) income	$ (17,020)	$ 144,720
Decrease in inventory balance	9,346	18,183
Decrease in net capital assets	17,973	37,314
Amounts not included in Public Accounts due to timing	(5,497)	13,757
Net recovery reported in the Public Accounts	$ 4,802	$ 213,974

8. Related Parties

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding, at year end are as follows:

	2001	2000
Revenue	$ 518,222	$ 264,194
Accounts receivable	340,877	24,141

In addition, the Fund pays Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

In accordance with established government policy, the Fund has not been charged with certain costs including occupancy, financing and certain administrative costs. These costs have been absorbed by the various departmental appropriations and therefore no provision for such costs is reflected in these financial statements.

9. Financial Instruments

The Revolving Fund's financial instruments consist of accounts receivable, accounts payable and accumulated net expenditure.

a) Significant terms and conditions

There are no significant terms and conditions related to the financial instruments that may affect the amount, timing and certainty of future cash flows.

b) Credit risk

The Revolving Fund is exposed to credit risk from the potential non-payment of accounts receivable. The majority of the accounts receivable balances are due from other Saskatchewan Crown agencies therefore the credit risk is minimal.

c) Fair value

The carrying amounts approximate fair value due to their immediate or short-term nature. The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

10. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

11. Contingency

The Government of Saskatchewan is named as a defendant regarding the manufacture of a play structure. The merits of the claim are unknown and an estimate of the extent of damages, if any, cannot be made.